

Playing With Pension Reform

February 23, 2006
NY Time Editorial

Delta could soon become the third major airline in the past two years to default on its pensions. If it does, federal pension insurance would cover some \$8.4 billion in benefits. Even so, many Delta employees could end up with less than they expected. And American taxpayers would move closer to the prospect of having to bail out the federal pension insurance agency.

The traditional employer-provided pension system is in trouble, and Congress is right to be considering reforms that would prevent defaults, or at least mitigate them, while shoring up federal pension insurance. Unfortunately, the bills that have emerged from the reform effort have serious weaknesses that would undercut those worthy goals, and in some cases could make things worse.

One of the worst provisions — currently in the Senate version of the reform bill — would exempt ailing airlines from tougher new pension-funding rules that would apply to all other companies. Delta and Northwest have lobbied hard for the exemption, saying that defaults would be much more likely if airlines had to compute their obligations the same way everyone else did. That's debatable. What is certain is that once Congress eased the rules for a few companies, it would be hard-pressed not to do the same for others — like, say, the carmakers. The same dangerous tendency to loosen the rules governing a federally insured activity at a time of growing risks was a big catalyst in the savings and loan wipeout of the 1980's.

Another flawed reform proposal could make it easier for companies to hide their pension troubles. Currently, a company must tell the federal insurer when its pension deficit reaches \$50 million, so the government can track its risk. A House measure would adopt a new formula to determine when a deficit must be disclosed. If the proposed formula had been in place all along, about half of the companies that have ever defaulted might never have had to give any warning of trouble, according to the Center on Federal Financial Institutions, a nonpartisan research organization in Washington.

Into this sausage mix President Bush recently threw a budget proposal that calls on Congress to raise \$16.7 billion from underfunded pension plans. But to raise that much, the insurance premium would need to be as high as 1.8 percent of the underfunding. That's twice as much as Congress would impose, and it would probably push weak plans over the edge. In fact, the administration's proposal is not serious. It's a silly attempt to show "savings" in one area in order to advance unaffordable presidential priorities — tax cuts — elsewhere.

That's a shame, because the pension reform effort needs strong leadership. What started as a worthy cause is now falling victim to lobbying, partisan politics and all the other usual suspects.